

Submission of Effective Software Solutions, LLC
June 10, 2005

To the **President's Advisory Panel on Federal Tax Reform**

The Honorable Connie Mack, Chairman

The Honorable John Breaux, Vice-Chairman

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A tax system that rewards laziness and punishes success will always fail. Every 20 years, we keep reforming the existing tax code (e.g. Presidents Kennedy and Reagan). Any policy which supports reform will be manipulated through exception-based legislation. Since 1986, the last tax overhaul, greater than 10,000 tax-code modifications passed. Thus, creating the current tax crisis and your panel's justification. Only a solution replacing the tax code will suffice.

After reviewing many submitted comments by concerned companies, citizens, and organizations, they all miss these six key aspects: (1) the 22%-26% embedded taxes which exist on all goods and services sold today; (2) the current tax system is very regressive; (3) the current revenue collection system views citizens as criminals versus contributors (due to the type and magnitude of information stored for each taxpayer—only adding to the complexity); (4) any solution including an income tax is open to manipulation through tax lobbyists (as history shows repeatedly); (5) the current system's complexity significantly drains the GDP (Gross Domestic Product) through compliancy efforts and needs to change drastically to alleviate that financial burden – e.g. \$225 billion spent complying with the tax code [Source: Syracuse University TRAC I.R.S. Study]; (6) reduces the number of tax evaders, thus alleviating the burden on law-abiding citizens.

The current tax system hurts small businesses through compliance efforts and regressive taxation, making it difficult to amass wealth, pay down debt, and expand operations. Three years ago, I learned of Representative Linder's bill, HR25, The FairTax—a national retail consumption tax.

It just seemed too easy and simplistic to work; after all my efforts to disprove the effectiveness, I found The FairTax to only assist our nation—including the retail industry.

The FairTax as a Tax Replacement Solution Presents Several Attractive Benefits

The FairTax addresses my initial six concerns as follows: (1) it removes all embedded taxes on goods and services, thus allowing businesses to operate tax-free, replacing the retail embedded tax with the FairTax—making it visible to consumers, and having all prices drop 22% our overseas products become more competitive; (2) Seniors and all working Americans get their whole paycheck—providing retired Americans real tax relief, and a prebate check covering taxes on monthly necessities; (3) lacking the need for audits and tax returns, the Treasury Department no longer needs to track and manage excessive financial data—allowing for redistribution of government budgetary funds; (4) as all businesses operate tax-free, and all retail transactions are taxed, by replacing the already existing embedded taxes, there are no exceptions and thus, no means for increased complexity (Note: used goods are tax-free, which avoids double taxation); (5) businesses aren't burdened with compliancy costs, while retail establishments are paid a percentage of all taxes collected to offset administration costs, and submit their federal collections along with state tax collection revenue; (6) all criminals, illegal adult entertainment industry workers, and drug traffickers/dealers—combine for over \$1 trillion in untaxed revenue annual—now would contribute to our economy by paying The FairTax, thus decreasing the burden on the poor and middle class. One additional point on benefits, with all businesses operating tax-free, there is a significant tax incentive to open factories and create jobs here—for both foreign and domestic companies, the U.S. would be the world's largest tax-free cash haven, creating a significant cash influx into our economy, Americans have more take-home cash and can either spend or save—both which

stimulate the economy—and 15 April becomes just another day on the calendar, saving businesses hours of laborious tax preparation efforts. Finally, tourists would contribute to our tax system and government programs, which they currently avoid on an income-based system. (Remember, goods and services stay about the same price, as The FairTax removes the embedded tax—minimizing any retail industry impact.)

Economists Approve The FairTax (HR25 and S25)

Recently, 76 economists created an open letter to Congress, the President, and the American people, all fully endorsing The FairTax, as the only solution for tax replacement. Their letter can be found here, http://www.fairtax.org/pdfs/Open_Letter_President.pdf via the Internet. I would encourage the panel members and the public viewing these comments to read their letter, if they haven't already done so.

The Flat Tax Reform is a Purport

For the Flat Tax proponents, we must look to history for guidance. In 1986, we created a two bracket flat tax at 15% and 28% with most deductions being removed. Twenty years later, the original tax code having been modified over 10,000 times provides us now with a 54,000 page tax code, that takes \$225 billion in estimated compliance costs, which are passed up the purchase chain from materials supplier, to manufacturer, to wholesaler, to distributor, and ultimately paid by the retail consumer. Thus, any solution which leaves a simplified income-based tax code will repeat the complexity cycle again. History does repeat itself.

Fair Tax Criticism Results from Lack of Knowledge with Bill's Contents and Protocol

All criticisms to the Fair Tax I've read neglect one key component—the embedded tax. This is so successfully hidden, that most Americans are unaware of its existence, until it is explained to

them. Then, their opposition to the FairTax fades rapidly, as they understand The FairTax swaps a hidden tax for a visible one. Additionally, it must be noted that all taxpayers with a Social Security Number will receive a monthly FairTax prebate. Opponents fail to fully understand how the prebates work, and thus, use it as a means to downplay the effectiveness or purport increased complexity, which is a myth and scare tactic. In fact, the prebate is what makes The FairTax so effective—everyone gets the basic necessities of life tax free, through the prebate checks. Next, understand that due to our current tax business tax infrastructure, many companies choose to operate overseas. Daimler-Chrysler being a noted example, as the business tax rates in Germany are better than the U.S. The FairTax removes all business taxes and would welcome companies to open offices here.

Additionally, I've perused comments from retail organizations who are in absolute opposition to The FairTax. Unfortunately, their criticism stems from fear, uncertainty, and doubt, in my opinion. One in particular, commented on several studies which they sponsored. In the computer industry, we see this type of reporting quite frequently and know that anyone who pays for an survey always returns a favorable result for their cause. This referenced group's studies, with all due respect, show what appears to be an ignorance of what The FairTax will do for the economy and for the retail industry overall. I would encourage any and all opponents to read the economist's letter referenced above and realize that 76 economists want to help all American businesses, not hurt any one segment.

Regarding recent comments from Chairman Mack's interview with Mike Godfrey, he stated, *"If this is such a great idea, why haven't other political entities around the world pursued it?"* To be honest, it has. First, Florida and Texas—two of the world's largest economies—exist almost

solely on sales tax revenue. Second, England repealed its loathed income tax with a consumption tax, after defeating Napoleon and then enjoyed the longest, fastest economic expansion in its history; halted only by the re-imposition of the income tax. Third, the American society and government is known as The Great Experiment; we based our existence on a series of firsts. From being the great melting pot of the 20th Century, to historic inventions and innovations, to achievements (e.g. the 1969 moon landing). If we felt the need to play catch-up or follow some one else's lead, our society wouldn't exist. Period.

Finally, for opponents who state that, "The FairTax will never happen," or "It is too difficult to pass." I once again look to American history. In our country, our government created several firsts, through the will of the people: The American Revolution, The Whiskey Rebellion, Women's suffrage, passing prohibition, ending prohibition, ending discrimination, and abolishing Eastern European communism.

In closing, I would like to present a few pointed quotations that should summarize my thoughts on supporting The FairTax and issues with the current income-based tax system.

Three prior IRS Commissioners all agree that the current income-based revenue collection system needs a replacement.

"I believe that a better way to raise revenue not only can be found but must be found because I am convinced that the present system is leading us right back to the very tyranny from which those who established this land of freedom risked their lives, their fortunes and their sacred honor to forever free themselves..."

- T. Coleman Andrews, IRS Commissioner (1953–1955)

"The IRS has become a symbol of the most intrusive, oppressive and non-democratic institution in our democratic society."

- Fred Goldberg, IRS Commissioner (1989-1992)

“When it comes to the workings of our tax system, I have just about seen it all, and that experience has led me to the conclusion that we should repeal the Internal Revenue Code and start over.”

- Shirley Peterson, IRS Commissioner (1992-1993)

Finally, from President Kennedy, his comments on the flawed tax system which he worked to reform, only to have his efforts become muddled in post-reform loophole legislation.

"Our tax system still siphons out of the private economy too large a share of personal and business purchasing power and reduces the incentive for risk, investment and effort-thereby aborting our recoveries and stifling our national growth rate."

- John F. Kennedy, January 24, 1963, Message to Congress on Tax Reduction & Reform, House Doc 43, 88th Cong., 1st Sess

The FairTax addresses concerns on economic growth, simplicity, tax code replacement, ease of implementation – as HR 25 / S 25 already exists as legislation with details duly thought out, collects revenue from currently non-reporting entities (e.g. criminals), avoids the 25% IRS estimate of current tax evaders, provides incentives for personal savings and business re-investment, foreign capital investment (due to tax-free status on investments), removes the embedded taxes on all retail purchases which makes our products more competitive overseas.

As a small business owner, allowing me to grow my business through capital investment versus post-income tax dollars and compliance costs, puts more money in the hands of my firm, and my colleagues' companies, while fully funding the Federal Government. The FairTax, removes a tremendous burden from the backs of the American business owner, with an eye towards the future. I strongly recommend The FairTax – HR 25 / S 25 as the sole tax replacement solution for our country and its future.